

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
PRESIDING OFFICER'S INFORMATION REQUEST NO. 10 (QUESTIONS 2-5)
(July 22, 2005)

The United States Postal Service hereby provides the responses to Presiding Officer's Information Request (POIR) No. 10, Questions 2-5, issued July 8, 2005. The following witnesses are sponsoring the identified responses to this POIR:

Witness Tayman: Question 2

Witness Taufique: Questions 3, 4, and 5

Each question is stated verbatim and is followed by the response. The response to Question 1 is forthcoming.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF POSTAL SERVICE WITNESS TAYMAN
TO POIR NO. 10, QUESTION 2

2. During Witness Tayman's oral cross-examination, he noted that the Escrow Requirement of \$3.081 billion will not be disbursed to the Treasury but will be held by the Postal Service as an asset on the balance sheet. Tr. 2/237 at 17-24. This can be seen in the cash flow statements provided in LR-K-50 as an increase in cash and cash equivalents for FY 2006. See the electronic file from USPS LR-K-50, filename IntIncExp_R05_corrected at worksheet "Cash Flow", line 47.

Witness Tayman also states that "...in the aspects of financial reporting, a company usually can't pay itself an expense and record it as an expense on their income statement." So, he states that there will be a "unique situation" in regards to how the escrow requirement will be reported on the Postal Service's monthly and annual financial statements for FY 2006. Tr. 2/238 at 1-4.

- a. Do you agree that a depreciation expense, while based on a tangible value of a balance sheet asset, is an expense on the income statement in which a company is paying itself and recording it on the income statement? Do you agree that this generates a cash flow from a stream of revenues that will eventually enable the company to replace that asset in the future? If you don't agree, please explain the reasons for your disagreement.
- b. If you do agree, generally, why would not the escrow requirement be considered in the same vein, especially since the Postal Service is mandated by law to recognize the escrow as an operating expense.

RESPONSE:

- a. No. There is no valid comparison between depreciation expense and the PL 108-18 escrow expense. Assets that the Postal Service uses to provide services are purchased from third parties. Since accounting principles require expenses be matched to the extent possible with revenues, assets with useful lives over one year are capitalized and expensed as depreciation. Therefore, depreciation of an asset represents the recovery of the original purchase amount and has no relationship to generating funds for the purchase of replacement assets.

The PL 108-18 escrow expense is not comparable to depreciation expense. Unlike depreciation, the escrow amount is defined by PL 108-18 as

RESPONSE OF POSTAL SERVICE WITNESS TAYMAN
TO POIR NO. 10, QUESTION 2

Response to POIR No. 10, Question 2 Continued

an annual operating expense that increases based on the arbitrary definition of “savings” (see USPS-T-6, pages 11-12). The escrow expense does not result from the purchase of a good or service that will benefit either current or future periods and involves no outlay of funds to a third party. Rather, the PL 108-18 escrow is the amount of cash that the Postal Service must generate annually from operations and restrict for uses to be determined by the Congress at some future date. Accordingly, it will be reported on the balance sheet of the Postal Service as “restricted cash” and will not be reflected through the statement of operations until Congress determines its use.

- b. Not applicable.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 10, QUESTION 3

3. Please refer to USPS-LR-K-77, FY 2004 Billing Determinants. On Page L-2, it shows "Pieces for First-Class QBRM with Quarterly" at 161,404,598 and "First-Class QBRM without Quarterly" at 224,243,133. This sums to a total of 385,647,731.
- Now refer to pages A-1 and A-5. On page A-1 it shows QBRM Pieces at 340,003,000 for "First Ounce." On Page A-5 it shows "QBRM Post Cards" at 41,775,000. This gives a sum of 381,778,000.
- Please reconcile the difference between the total calculated from L-2 (385,647,731) and the total calculated from A-1 and A-5 (381,778,000.)

RESPONSE:

It is my understanding that in the ODIS-RPW system, adjustments due to influential tests are carried out separately by RPW Report summary category. Summary categories include the major mail classes such as First-Class Mail, as well as Special Services such as Business Reply Mail. The independent adjustment of "parent" mail class records and their associated "special service" records may create slight discrepancies in estimates when analyzing the RPW extract file. The adjustment process for influential tests is discussed by witness Pafford (USPS-T-4) in USPS-LR-K-14.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 10, QUESTION 4

4. Please refer to USPS-LR-K-115, workbook USPS-T-28C spreadsheets, sheet "SS-9 Business Reply Mail." On that sheet, please refer to cells C1 and C2, which show the proportion figures for "new" and "old." Please confirm that that this represents the same issue that was addressed in the response to POIR No. 8, question 12, about "SS-26 Permit Imprint Per," which stated, "The old fee and new fee references are to FY 2002, when there were two fees charged for the service, but these references should not have been in this work paper." Also, please make any necessary corrections.

RESPONSE:

Confirmed. The following corrections to the worksheet have been identified:

- Transactions, FY 2004:

Accounting Fee of 93,791 should be changed to 77,135.
Nonletter-Size Monthly Fee of 40 should be changed to 33.
Permit Fee of 168,021 should be changed to 144,602.

- Transactions, Test Year Before Rates:

Accounting Fee of 92,781 should be changed to 76,304.
Nonletter-Size Monthly Fee of 40 should be changed to 33.
Permit Fee of 166,211 should be changed to 143,044.

- Transactions, Test Year After Rates:

Accounting Fee of 91,735 should be changed to 75,443.
Nonletter-Size Monthly Fee of 39 should be changed to 33.
Permit Fee of 164,337 should be changed to 141,431.

Since these figures are not included in the transactions totals, no changes are needed for the transactions in the Advance Total or Grand Total lines.

- Revenues, Before Rates Volume, Current Fee:

Accounting Fee of 44,071,023 should be changed to 36,244,345.
Nonletter-Size Monthly Fee of 357,075 should be changed to 296,957.
Permit Fee of 24,931,684 should be changed to 21,456,641.
Advance Total of 125,854,989 should be changed to 114,293,150.
Grand Total of 220,492,148 should be changed to 209,130,310.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 10, QUESTION 4

Response to POIR No. 10, Question 4 Continued

- Revenues, After Rates Volume, Proposed Fee:

Accounting Fee of 45,867,359 should be changed to 37,721,666.

Nonletter-Size Monthly Fee of 371,877 should be changed to 309,267.

Permit Fee of 26,293,873 should be changed to 22,628,964.

Advance Total of 132,000,488 should be changed to 120,127,277.

Grand Total of 233,584,134 should be changed to 221,710,923.

RESPONSE OF POSTAL SERVICE WITNESS TAUFIQUE
TO POIR NO. 10, QUESTION 5

5. Please refer to USPS-LR-K-115, workbook USPS-T-28C spreadsheets, sheet "SS-17 Media Mail Presort Per." Please refer to cell Y32, where 2004 Base Year volume is calculated. Cell Y32 is set to equal Y27 (which contains the value for "Special" volume). However, the volumes for 2006 TYBR and 2006 TYAR include the sum of "Special" and "Library" volumes. Please reconcile these calculations, i.e., please explain why "Library" volume is included in Test Year volumes but is excluded from the calculation of 2004 Base Year volume.

RESPONSE:

The Library volume should not be included in Test Year volume. The following corrections to the worksheet have been identified:

- The transactions for Test Year Before Rates of 1,092 should be 1,003.
- The transactions for Test Year After Rates of 1,085 should be 997.
- The revenue for Test Year Before Rates Volume at Current Fee of 163,776 should be 150,469.
- The revenue for Test Year After Rates Volume at Proposed Fee of 173,586 should be 159,499.